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SUBJECT: Canada adopts a wait-and-see position on U.S. COOL  
voluntary guidelines

11. (SBU) Summary: Canada does not intend - for now - to launch a WTO trade challenge against the United States over the voluntary guidelines that complement the U.S. Country of Origin Labeling (COOL) final rule, Canadian Agriculture Minister Gerry Ritz stated on February 25. Ritz said the voluntary guidelines "are causing uncertainty and concern for livestock industries on both sides of the border," and indicated that he would monitor whether the guidelines' implementation violates international trade commitments. Actions over the next few weeks could change Canada's WTO plans. The extent of United States-Canada integration in meat production and sales suggests that any additional costs arising from COOL compliance might be passed on to U.S. consumers - although establishing any direct link would likely be difficult.

Issue Overview

12. (U) The COOL final rule, scheduled to go into effect on March 16 requires country of origin labeling in the United States for beef, pork, lamb, goat, and chicken; wild and farm-raised fish and shellfish; fresh and frozen fruits and vegetables; peanuts, pecans, macadamia nuts, and ginseng. The final rule prescribes specific criteria that must be met for a commodity to bear a "United States Country of Origin" declaration. The final rule also contains provisions for labeling covered commodities of foreign or mixed origin.

13. (SBU) The Canadian government and producer groups have followed COOL developments closely, particularly regarding regulations for beef and pork, given the high degree of integration of the U.S. and Canada meat industries. A central concern is the requirement to provide disaggregated information about an animal's place of birth, feeding and slaughter. On January 19, Canada's International Trade Minister, Stockwell Day, announced that Canada would not yet pursue a WTO challenge against the United States since the existing COOL final rule provides flexibility in the labeling of animal products that have a Canadian component in the production cycle. The COOL

final rule also provides exceptions for processed meat products and meat destined for food service establishments.

¶4. (SBU) The new voluntary guidelines announced by U.S. Agriculture Secretary Vilsack on February 20 re-ignited Canada's earlier concerns about the possible trade-disrupting effects of stricter labeling requirements, even those undertaken on a voluntary basis. However, the February 23 announcement by Minister Ritz showed that Canada will reserve judgment on the new labeling regime until after the implementation of the final rule and the voluntary measures.

¶5. (U) The Canadians believe that the main trade regulatory issues in contention with COOL are NAFTA and WTO rules of origin provisions that state that the last country where a commodity's "substantial transformation" occurred (slaughter, curing, etc.) should be considered the country of origin. Canadian officials also state that NAFTA and WTO commitments on technical barriers to trade require that measures taken to protect consumers (such as labeling) should be the least restrictive measures necessary to achieve a national purpose.

Possible Trade Disruptive Effects from COOL  
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¶6. (U) In 2008, two-way trade in beef and pork (including live cattle and hogs) totaled US\$4.8 billion. Canada exported \$3.6 billion to the United States, while importing \$1.2 billion. Canada has a trade surplus in both beef and pork, but the share of U.S. beef production being exported is growing -- nearly 12 percent in 2008. After Mexico, Canada is the second largest beef export destination for the United States.

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¶7. (SBU) Bilateral meat trade is highly complementary. For example, hogs thrive on corn but corn-based feed is cheaper in the United States so Canadian farmers supply millions of feeder pigs to U.S. hog finishing operations. In beef trade, the integration of the markets means Canadian exports augment U.S. supply for fresh and chilled carcass and half-carcasses and primal cuts. U.S. exports to Canada are dominated by high-end cuts for the hotel and restaurant/food service trade in the population centers of Ontario and Quebec. The Canadian Cattlemen's Association (CCA) warns that tighter controls on Canadian ground beef imports could hit low-income Americans particularly hard.

¶8. (SBU) The practical effect of the voluntary guidelines is that U.S. ranchers and meat-packing companies using the guidelines would likely have to handle Canadian animals separately from U.S. ones. Canadian government and industry representatives have expressed concern that some U.S. packers are already refusing to accept Canadian cattle, while others are only processing Canadian cattle on certain days and at discount prices. Responding to the announcement of the voluntary guidelines, a spokesman for the Canadian Pork Council stated, "Since American farmers depend on Canadian feeder pigs and cattle, we're really hoping that the U.S. administration will give the rules as finalized a chance to work."

¶9. (SBU) Comment:

The probability of a WTO challenge from Canada (and potentially other trading partners) increases if the voluntary guidelines are made mandatory. Since a WTO or NAFTA challenge to COOL could take years to complete, a more immediate concern for the United States might be reduced ability to effectively argue against other non-scientifically based labeling requirements such as those in the European Union pertaining to genetically modified organisms. A tit-for-tat reaction from Canada is possible but not probable. That said, the strength of the U.S.-Canada agricultural trading relationship suggests that Canada will look to accommodate new U.S. regulations as far as possible and pursue trade retaliation as a last resort. End comment